
TREASURY LAWS AMENDMENT (MEASURES FOR CONSULTATION) BILL
2023: MULTINATIONAL TAX TRANSPARENCY – DISCLOSURE OF
SUBSIDIARIES

EXPOSURE DRAFT EXPLANATORY MATERIALS

DRAFT

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Glossary

This Explanatory Memorandum uses the following abbreviations and acronyms.

<i>Abbreviation</i>	<i>Definition</i>
Bill	# TBC
Corporations Act	<i>Corporations Act 2001</i>

Chapter 1: *Multinational Tax Transparency - disclosure of subsidiaries*

Outline of chapter

- 1.1 For financial years commencing on or after 1 July 2023, Australian public companies (listed and unlisted) must disclose information about subsidiaries in their financial reports.
- 1.2 Legislative references in this Chapter are made to the Corporations Act unless otherwise specified.

Context of amendments

- 1.3 There are shifts globally towards public reporting as a means of enhancing public scrutiny of multinational tax arrangements. This amendment is part of the Government's broader regulatory mix to improve corporate disclosures. Ensuring this information is in the public domain will facilitate an informed discussion on tax compliance, helping to build trust in the integrity of the tax system.
- 1.4 Australian public companies (listed and unlisted) will be required to disclose information on their subsidiaries. This measure will place an onus on companies to be more transparent about their corporate structures. Disclosures would be made publicly available within the company's annual financial report published on their website to minimise compliance burden.
- 1.5 The intent is that increased public disclosures will lead to enhanced scrutiny on companies' arrangements, including how they structure their subsidiaries and operate in different jurisdictions, including for tax purposes. From a tax perspective, the expectation is that more information in the public domain will help to encourage behavioural change in terms of how companies view their tax obligations, including their approach to tax governance practices, decision making around aggressive tax planning strategies and potential simplification of group structures.
- 1.6 The reporting of a company's subsidiary information would be in line with international approaches to enhanced corporate tax transparency, such as that of the UK. Based on stakeholder feedback from the recent consultation process, this would also provide a more objective mechanism for disclosing information on a company's tax arrangements. Requiring public companies to

disclose their subsidiaries information would also align with the Government's commitment to implement a beneficial ownership register.

Summary of new law

- 1.7 For each financial year commencing on or after 1 July 2023, Australian public companies must, as part of their annual financial reporting obligations, provide a 'consolidated entity statement':
- If the accounting standards require the public company to prepare financial statements in relation to a consolidated entity, the consolidated entity statement must include disclosures about entities within the consolidated entity at the end of the financial year.
 - If however, the accounting standards do not require the public company to prepare financial statements in relation to a consolidated entity, the public company must provide a statement to that effect.
- 1.8 Alongside the general reporting obligations, directors, chief executive officers and chief financial officers must also declare that the consolidated entity statement is in their opinion a true and correct at the end of the financial year.

Detailed explanation of new law

- 1.9 Under the current law, paragraph 292(1)(b) provides that public companies must prepare financial reports each financial year. In addition to public companies, a range of other bodies, including disclosing entities, large proprietary companies and registered schemes must also prepare financial reports. Those bodies are outside of the scope of these amendments.
- 1.10 Section 295 provides for the contents of annual financial reports. Subsection 295(1) provides for this in three broad categories. Further details for each category are provided for in subsections 295(2), (3) and (4).
- 1.11 The amendments require Australian public companies to, as part of their annual financial reporting obligations, disclose additional information in a 'consolidated entity statement'.
- [Schedule #, item #, paragraph 295(1)(ba)]*
- 1.12 The term 'public company' is defined in section 9, which is generally a company other than a proprietary company or a CCIV (collective corporate investment vehicle).
- 1.13 Currently, subsection 295(2) requires entities to prepare financial statements differently, depending on whether the accounting standards require them to prepare financial statements in relation to a consolidated entity.
- 1.14 Under the amendments, if the accounting standards require the public company to prepare financial statements in relation to a consolidated entity, the

consolidated entity statement must provide the following information in relation to entities within the consolidated entity:

- the names of each entity at the end of the financial year;
- whether the entity was a body corporate, partnership or trust at the end of the financial year;
- whether at the end of the financial year, the entity was any of the following:
 - a trustee of a trust within the consolidated entity,
 - a partner in a partnership within the consolidated entity;
 - a participant in a joint venture within the consolidated entity;
- if the entity was a body corporate, where the entity, was incorporated or formed;
- if the entity is a body corporate, the public company’s percentage ownership of each of those entities that are body corporates at the end of the financial year; and
- the tax residency of each of those entities during the financial year.

[Schedule #, item #, paragraph 295(3A)(a)]

- 1.15 If the accounting standards do not require the public company to prepare financial statements in relation to a consolidated entity, the public company’s financial report must include a statement to that effect. This statement is the ‘consolidated entity statement’ for such a company.

[Schedule #, item #, paragraph 295(3A)(b)]

- 1.16 Accounting standards refer to those made by the Australian Accounting Standards Board (under section 334).

- At the time these explanatory materials were prepared, Accounting Standard AASB 10 related to consolidated financial statements; these accounting standards were publicly available at:
<https://aasb.gov.au/pronouncements/accounting-standards/>

- 1.17 Alongside the general reporting obligations, directors, chief executive officers and chief financial officers must also declare that the consolidated entity statement is in their opinion are true and correct.

[Schedule #, item #, paragraphs 295(4)(da) and 295A(2)(ca)]

Commencement, application, and transitional provisions

- 1.18 The amendments apply to financial statements prepared by public companies for each financial year commencing on or after 1 July 2023.

[Schedule #, item #, section 1700]